

At the bottom of the value chain

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Summary

Participation of smallholders in sustainability certifications is expected to accelerate the transformation towards a more environmentally sustainable production of palm oil while simultaneously improving smallholders' livelihoods. However, studies on the impact of sustainability certification on smallholders are rather inconclusive and lack consideration of the social context in which smallholders operate. The central aim of this dissertation is to investigate the impacts of sustainability certification on the livelihoods of Indonesian palm oil smallholders from a smallholders' perspective. We thereby differentiate between five different types of smallholders based on differences in their social and institutional context of production. The central research question in this dissertation is:

In what way and to what extent does sustainability certification contribute to a better livelihood of Indonesian palm oil smallholders?

This general question is specified in three sub-questions: 1) How does private certification relate to the smallholders' livelihood? 2) To what extent may public certification become a viable alternative to private certification? 3) What might be a potential pathway leaving room for a sustainable livelihood for palm oil smallholders?

To answer these research questions, we adopt, and later on amend, the Sustainable Livelihood concept. This concept comprises the capabilities, assets and activities required for sustaining or improving a means of living. This dissertation exists of four empirical chapters; the first three empirical chapters focus on private sustainability certification: the Roundtable on Sustainable Palm Oil (RSPO), whereas the fourth empirical chapter analyses an example of public sustainability certification: Indonesian Sustainable Palm Oil (ISPO).

Given uncertainties about the implications of sustainability certification for smallholders' livelihood, **Chapter 2** explores the potential of sustainability certification to improve the livelihood of smallholders. To achieve this objective, we develop an amended sustainable livelihood framework that we use to analyze the livelihoods of Indonesian smallholders participating in the Roundtable on Sustainable Palm Oil (RSPO). Although access to markets and vulnerability are not improved through certification, we could find some positive, indirect effects of certification, for example through organizational changes leading to an increase in the productivity of palm oil plantations. Chapter 2 also indicates a discrepancy between certifications' theory of change and the meaning provided to certification by farmers. Where the former sees certification as a tool to create a more sustainable agriculture, the smallholders interpret it as an economic tool in the pursuit of a better livelihood. This implies that non-economic benefits of certifica-

tion (such as social and environmental improvements) are not very highly valued by the smallholders, unless they result in economic benefits. Certification schemes are thus weakly institutionalized, and farmers will easily shift to a more profitable way of production if they get the chance. We therefore conclude that a further analysis of the economic profitability of certification for smallholders is needed.

Chapter 3 analyses the economic profitability of private palm oil certification for smallholders using a Cost-Benefit Analysis (CBA) and the assessment of Net Present Values (NPV). Better understanding the investment value of certification adoption may be relevant to bring in more smallholders and to make certification more beneficial for the generally vulnerable smallholders. Chapter 3 shows that under the actual condition, in which the smallholders do not pay for the certification costs, certification is profitable for all different types of smallholders (scheme smallholders and independent smallholders). The extent to which certification can be considered profitable depends on the smallholder's conditions before they adopt certification. In the self-funded scenario, wherein smallholders pay all certification costs themselves, certification remains profitable for all smallholders except for scheme smallholders who were already better off before certification. For independent smallholders, certification in the self-funded scenario will only remain profitable if they receive premium prices; if premium prices would be abolished, independent smallholders would need unrealistically high premium fees, i.e. double compared to the current premium fees, to make it a profitable route. Considering the current oversupply of sustainable palm oil we consider it unlikely that certification remains profitable for scheme smallholders in the self-funded scenario and for independent smallholders if they do not receive premium prices anymore.

Chapter 4 is inspired by previous studies that generally analyze whether certification affects smallholders' vulnerability (i.e. ability to cope with stresses and shocks), while they seem to neglect the smallholders' resilience (i.e. ability to recover from stresses and shocks). This chapter contributes to knowledge development in this area by empirically applying and verifying an assessment framework developed by Speranza, Wiesmann, and Rist (2014) and through analyzing the livelihood resilience of five different types of palm oil smallholders in Indonesia. Chapter 4 shows that palm oil smallholders are relatively resilient to price declines, haze resulting from forest fires and El Nino. Differences in resilience resulting from the different shocks and between the different groups of smallholders are small. Regarding the assessment framework, this chapter reveals that correlations between the dimensions of resilience and livelihood resilience are rather weak for buffer capacity and learning capacity, and even absent for self-organization. Although self-organization contributes positively to buffer capacity and learning capacity, it does not directly improve the palm oil farmers' resilience. Farmers under a one-roof management system (not self-organized) have more opportunities to diversify their income and find a part-time job outside their plantation, which may help them to recover from shocks that impact the palm oil sector. Chapter 4 also

points out that certification and collaborative relationships with companies (in comparison to middlemen) positively correlate with livelihood resilience.

While Chapter 2, 3 and 4 focused on private certification initiatives, **Chapter 5** analyses the potential of a public Indonesian certification scheme (ISPO) to initiate sustainable change in palm oil production. Through a governance capacity approach, this chapter questions the extent to which ISPO may be able to meet its own objectives and the extent to which it may contribute to solve palm oil related problems. ISPO embraces a tremendous governance challenge as thousands of companies and millions of smallholder farmers are expected to participate. It is concluded that, although ISPO has initiated a process of change, it has not yet developed its full potential. The main reason regards ISPO's rather loose problem definition, weak authority of the implementing organization, and the fact that the reliability of ISPO is still too low to convince (parts) of the global market. ISPO may therefore face difficulties in meeting its own targets and solving palm-oil related problems, such as deforestation, biodiversity loss, greenhouse gas emissions, and social conflicts between big plantations and local communities. The main governance challenge regards combining a more authoritative implementation mechanism with a convincing balance between sustainability objectives and economic interests of the sector. Given these challenges we consider it unlikely that ISPO, in the short term, will become a viable alternative to private certification.

Chapter 6 concludes that private certification has a positive, but rather small effect on smallholders' livelihoods. We further doubt if public or private sustainability certification, in the way in which they are currently shaped, will ever be able to lead to systemic and significant sustainability changes. For both forms of certification, it remains challenging to find a balance between environmental sustainability and economic interests. To some extent, the RSPO managed to find a balance between offering a strict environmental standard and providing economic benefits for participating farmers, but these economic benefits are far from being certain in the long term. Private schemes may further not be able to improve the livelihoods of the most vulnerable smallholders who cannot comply with the standards. Without government involvement, it also remains challenging to unify the standards to the local context, existing regulations and enforcement mechanisms. ISPO is expected to be relatively cheap (e.g. no membership fees) and more easily accessible for smallholders compared to private certification. However, the rules are less strict and interspersed with leeway. Combined with the lack of authority, coordination problems, and problems regarding acceptance of the standard in the global market, it leads to a rather weak ability to achieve an environmentally sustainable transformation of the palm oil sector.

Chapter 6 ends with an exploration of potential pathways toward a more sustainable future for Indonesian palm oil smallholders. We explore different pathways and discuss challenges and weaknesses that go along with them, including a reversal of the trend of certification, parallel existence of public and private certification, the landscape approach, the jurisdictional approach and the FAIR community-company partnership ap-

Summary

proach. After balancing the pros and cons of each pathway we suggest to further explore the possibilities of integrating the FAIR company-community partnership approach with the jurisdictional approach as a way forward towards a more sustainable future for Indonesian palm oil smallholders.